



## Operational Procedures for Endorsements and Guarantees

Note: The original version of this regulation is published in Chinese. In case of discrepancy between the Chinese and English versions the Chinese version shall prevail.

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## **1.0 Purpose**

These Operational Procedures are adopted to protect the rights and interests of the Corporation's shareholders, ensure sound financial management, and minimize operational risks with respect to endorsements and guarantees.

## **2.0 Scope**

- a) Financing endorsements and guarantees
  - i) Bill discounting.
  - ii) Any endorsement or guarantee made to meet financing needs of another company.
  - iii) Issuance of any separate negotiable instrument to a non-financial enterprise as security to meet financing needs of the Corporation itself.
- b) Customs duty endorsements and guarantees: any endorsement or guarantee made for the Corporation itself or another company with respect to customs duty matters.
- c) Other endorsements and guarantees: any endorsement or guarantee beyond the scope of the preceding 2 paragraphs.
- d) The creation of a pledge or mortgage over any chattel or real property provided by the Corporation as security for any borrowing of funds by another company shall also be subject to these Operational Procedures.

## **3.0 Applicable documentation**

- a) Article 36-1 of the Securities and Exchange Act.
- b) Article 3 of the Corporation's Articles of Incorporation.
- c) The Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies issued by the Financial Supervisory Commission.
- d) The Corporation's Directions for the Handling of Public Announcements and Reporting over the Market Observation Post System (THSRC-BQ2-000-001).
- e) The Corporation's Rules Governing Rewards and Disciplinary Action (THSRC-BA2-000-003).
- f) The Regulations Governing the Preparation of Financial Reports by Securities Issuers issued by the Financial Supervisory Commission.

## **4.0 Definitions**

- a) Net worth

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Means the balance of total assets less total liabilities (i.e., shareholders' equity). Where the Corporation's financial reports are prepared according to the International Financial Reporting Standards, "net worth" means the equity attributable to owners of the parent as stated in the balance sheet prepared under the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

b) Subsidiary

Shall be determined in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

c) Date of occurrence

Means the earliest of the date of endorsement/guarantee, date of Board of Directors ("Board") resolution, or other date from which the entity for which the endorsement/guarantee is made and the amount of the endorsement/guarantee can be determined.

**5.0** Authorities and responsibilities

- a) The Finance Department under the Finance Division shall be responsible for the formulation, amendment, or repeal, and triennial review of these Operational Procedures.
- b) These Operational Procedures, and any amendments hereto, shall be implemented after adoption at a shareholders' meeting.
- c) All units and personnel involved in the execution of operations related to endorsements or guarantees shall comply with the provisions of these Operational Procedures.

**6.0** Descriptions

**6.1** Eligible entities for which endorsements or guarantees may be made

The Corporation may make endorsements and guarantees based on its business needs. In addition to the Corporation itself, the Corporation may make endorsements or guarantees only for the following companies ("endorsed or guaranteed entities"):

- a) A company with which the Corporation has a business relationship.
- b) A company in which the Corporation directly and/or indirectly holds more than 50 percent of the voting shares.
- c) A company that directly and/or indirectly holds more than 50 percent of the voting shares in the Corporation.
- d) A company in which the Corporation jointly invests with another party.

Companies in which the Corporation directly and/or indirectly holds 90 percent or more of the voting shares may make endorsements or guarantees for each other, subject to a maximum amount of 10 percent of the Corporation's net worth, provided that this restriction shall not

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apply to endorsements or guarantees made between companies in which the Corporation directly and/or indirectly holds 100 percent of the voting shares.

6.2 Maximum amount limits for endorsements and guarantees

6.2.1 The Corporation's endorsements and guarantees for outside parties shall comply with the restrictions contained in a syndicated loan agreement signed between the Corporation and a group of banks.

6.2.2 The total amount of endorsements and guarantees made by the Corporation for outside parties may not exceed 25 percent of the Corporation's current net worth, wherein the total amount of endorsements and guarantees for a single business entity may not exceed 10 percent of the Corporation's current net worth.

The total amount of endorsements and guarantees made by the Corporation and its subsidiaries as a whole for outside parties may not exceed 50 percent of the Corporation's current net worth, wherein the total amount of endorsements and guarantees for a single business entity may not exceed 20 percent of the Corporation's current net worth.

The "current net worth" indicated above shall be as stated in the Corporation's latest financial statements attested by a certified public accountant (CPA).

6.2.3 For an endorsement or guarantee made due to a business transaction relationship, the endorsement or guarantee amount for that business transaction relationship may not exceed 50 percent of the cumulative total transaction amount of the business transacted during the last 12 months, and may not exceed 5 percent of the paid-in capital of the guaranteed company.

6.2.4 If the Corporation is approved by the Ministry of Transportation and Communications (MOTC) to make equity investment in another company pursuant to Article 5.3 of the Construction and Operation Agreement between the Corporation and the MOTC, when the Corporation makes an endorsement/guarantee for the investee company pursuant to the equity investment contract stipulating that all contributing shareholders shall make a joint endorsement/guarantee for the investee company, the ratio of the amount of the endorsement/guarantee made by the Corporation for the investee company to the aggregate amount of the joint endorsement/guarantee may not exceed the Corporation's percentage of shareholding in the investee company.

6.2.5 If the total amount of endorsements and guarantees that is set as the maximum for the Corporation and its subsidiaries as a whole reaches 50 percent or more of the Corporation's net worth, an explanation of the necessity and reasonableness thereof shall be given at a shareholders' meeting.

6.3 Level of decision-making and authorization

6.3.1 The Corporation shall first perform the signature/approval procedures set out in 6.4 and obtain approval by resolution of the Board before it may make any endorsement or guarantee. However, to achieve time effectiveness, the Board may grant discretionary authority to the Chairman to decide on an endorsement or guarantee within a certain amount and subsequently submit the matter to the next Board meeting for retroactive recognition.

Before making any endorsement/guarantee under Article 6.1, paragraph 2, a subsidiary in which the Corporation directly and/or indirectly holds 90 percent or more of the voting shares

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shall first submit the matter to the Corporation's Board for approval by resolution, provided that this restriction shall not apply to endorsements/guarantees made between companies in which the Corporation directly and/or indirectly holds 100 percent of the voting shares.

6.3.2 If due to a business need the Corporation needs to make an endorsement or guarantee in excess of the maximum amount limit set out in these Operational Procedures, and if the endorsement or guarantee meets the conditions set out in these Operational Procedures, the Corporation must first obtain approval by resolution of the Board and furthermore have half or more of the Directors sign as co-sureties for any loss that the Corporation may incur as a result of the excessive endorsement/guarantee, before it may proceed with making the endorsement or guarantee. The Corporation shall also amend these Operational Procedures and submit the matter to a shareholders' meeting for retroactive recognition. If the shareholders' meeting does not approve of the matter, the Corporation shall adopt a plan to eliminate the excess portion within a given time limit.

6.3.3 Where the Corporation has established the position of independent Director, when it submits a matter to a Board meeting for discussion pursuant to Article 6.3.2, 6.4.2, or 6.7.4, each independent Director's explicit opinion of assent or dissent and reasons for dissent shall be recorded in the Board meeting minutes.

6.4 Procedures for making endorsements/guarantees

6.4.1 Assessment of endorsement/guarantee cases

For making an endorsement or guarantee, the Corporation shall diligently assess and review the following matters:

- a) The necessity and reasonableness of the endorsement/guarantee.
- b) Credit and risk assessment with respect to the entity for which the endorsement/guarantee will be made.
- c) Impact on the Corporation's operational risk, financial condition, and shareholders' equity.
- d) Whether collateral shall be obtained and valuation of collateral.

6.4.2 Before making an endorsement/guarantee for another party, the Corporation shall diligently assess whether the endorsement/guarantee complies with the Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies as well as these Operational Procedures. The results of this assessment and of the assessments referred to in the preceding article, together with explanations of the reason and circumstances for eligibility, and the maximum amount, term, and conditions of the endorsement/guarantee, shall be submitted to a Board meeting for resolution or for grant of discretionary authority to the Chairman. The endorsement/guarantee may be made only after approval by the Board or authorized discretionary decision by the Chairman.

6.4.3 The Corporation shall establish a log book for its endorsement- and guarantee-making activities and shall record details of each endorsement/guarantee, including the endorsed/guaranteed entity, amount, date of passage by the Board or authorized discretionary decision by the Chairman, endorsement/guarantee date, and assessment results required under

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Article 6.4.1, in the log book for future reference. After an endorsement/guarantee is approved by the Board or decided by the Chairman, a request for use of the corporate seals shall be submitted pursuant to the procedure set out in 6.5. All relevant negotiable instruments, agreements, and other documents shall be photocopied and safely kept, and the inventory of any documents and securities deposited with a custodian shall be regularly reviewed.

- 6.4.4 The finance unit shall prepare a statement of guarantees made or canceled during each month, for the purposes of controlling and tracking the status and for public announcement and reporting. It shall also assess and recognize contingent losses for endorsements/guarantees, disclose relevant information in the Corporation's financial reports, and provide the attesting CPAs (external auditor) with relevant materials for the performance of necessary audit procedures.
- 6.4.5 When as a result of a change in circumstances an endorsed/guaranteed entity no longer meets the requirements of these Operational Procedures or the amount of the endorsement/guarantee exceeds the maximum limit, the Corporation shall adopt a corrective plan, submit the plan to all Supervisors, and complete the corrections according to the plan schedule.
- 6.4.6 Before the end date of an endorsement/guarantee, the finance unit shall notify the guaranteed business entity to withdraw any negotiable instrument(s) deposited with the bank or creditor institution for purposes of the guarantee, and cancel all documents or instruments related to the endorsement/guarantee.
- 6.4.7 When the Corporation or any of its subsidiaries makes an endorsement or guarantee for a subsidiary whose net worth is lower than half of the paid-in capital, the following risk-control measures may be taken when necessary:
- a) Appoint senior management personnel to participate in the operations and decision-making of the company.
  - b) Demand that the company regularly submit various managerial and accounting statements for audit and analysis.
  - c) Demand that the company's managerial officer with the highest relevant authority attend a meeting of the Corporation's Board in a non-voting capacity and give an account of the company's current operation status and financial and business conditions.

In the case of a subsidiary with shares having no par value or having a par value other than NT\$10 per share, when calculating the paid-in capital, the sum of capital stock plus capital surplus (share premium) shall be used.

- 6.5 Procedures for custody and use of seals
- 6.5.1 The Corporation shall use the corporate seals registered with the Ministry of Economic Affairs (MOEA) as the dedicated seals for making endorsements and guarantees. The seals shall be kept in the custody of a designated person, and the fixed rules of procedure shall be complied with before the seals may be used or a negotiable instrument issued. The person designated as custodian of the seals for making endorsements and guarantees, and any change therein, shall be reported to the Board for approval.
- 6.5.2 The seal custodian may affix the seals for the purpose of making an endorsement or guarantee

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only after the endorsement or guarantee has been approved by resolution of the Board or by authorized discretionary decision of the Chairman and the documents requiring the affixing of seals, including the aforesaid approval record, the endorsement/guarantee contract or the negotiable instrument(s) used for purposes of the guarantee, and a seal request form, have been reviewed and approved by the chief financial officer.

6.5.3 Before affixing the corporate seals, the seal custodian shall first check the approval record.

6.5.4 When making a guarantee for a foreign company, the letter of guarantee to be issued by the Corporation shall be signed by a person authorized by the Board.

6.6 Public announcement and reporting procedures

6.6.1 The Corporation shall publicly announce and report the previous month's balance of endorsements and guarantees made by the Corporation and its subsidiaries by the 10th day of each month.

6.6.2 If the Corporation's balance of endorsements and guarantees reaches one of the following levels, it shall publicly announce and report the event within 2 days from the date of occurrence:

- a) The balance of endorsements and guarantees made by the Corporation and its subsidiaries reaches 50 percent or more of the Corporation's net worth as stated in its latest financial statements.
- b) The balance of endorsements and guarantees made by the Corporation and its subsidiaries for a single business entity reaches 20 percent or more of the Corporation's net worth as stated in its latest financial statements.
- c) The balance of endorsements and guarantees made by the Corporation and its subsidiaries for a single business entity reaches NT\$10 million or more and also the total balance of all endorsements and guarantees for, long-term investments in, and loans of funds to, that business entity reaches 30 percent or more of the Corporation's net worth as stated in its latest financial statements.
- d) The amount of any new additional endorsements/guarantees made by the Corporation or any of its subsidiaries reaches NT\$30 million or more and also reaches 5 percent or more of the Corporation's net worth as stated in its latest financial statements.

The Corporation shall publicly announce and report on behalf of any of its subsidiaries that is not a domestic public company any matter that such subsidiary is required to publicly announce and report under subparagraph d).

6.6.3 Any public announcement or reporting required above or otherwise by applicable provisions shall be handled in a timely manner in accordance with applicable competent authority requirements and the Corporation's Directions for the Handling of Public Announcements and Reporting over the Market Observation Post System (THSRC-BQ2-000-001).

6.7 Supplementary provisions

6.7.1 The operational procedures of the Corporation's subsidiaries for making endorsements and



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guarantees for outside parties shall comply with the provisions of the Corporation. A subsidiary that is not a public company shall, by the 5th day of each month, report relevant endorsement/guarantee information to the Corporation including the amount, entity, and term, provided that if the endorsements and guarantees made by the subsidiary reach any one of the levels set out in 6.6.2, it shall immediately notify the Corporation so that the Corporation can duly proceed with public announcement and reporting.

**6.7.2 Internal audit**

The internal audit personnel shall at least quarterly audit the operational procedures for making endorsements and guarantees and the execution thereof, and prepare written records accordingly. If any material violation is found, it shall immediately be reported in writing to all Supervisors.

**6.7.3** When an in-charge person or management member violates these Operational Procedures or applicable competent authority requirements, the violation shall be handled in accordance with the Corporation's Rules Governing Rewards and Disciplinary Action (THSRC-BA2-000-003).

**6.7.4** After passage by the Board, these Operational Procedures shall be sent to all Supervisors and submitted to a shareholders' meeting for approval. When a Director expresses dissent and such dissent is on record or in a written statement, the Corporation shall forward the Director's dissenting opinion to all Supervisors and submit the matter to the shareholders' meeting for discussion. The same procedures shall also apply to any amendments to these Operational Procedures.

**6.7.5** If the Corporation has established the position of independent Director, when these Operational Procedures are submitted to and discussed at a Board meeting pursuant to the preceding subparagraph, the opinions of each independent Director shall be given full consideration, and each independent Director's explicit opinion of assent or dissent and reasons for dissent shall be recorded in the Board meeting minutes.

**6.7.6** If the Corporation has set up an audit committee in accordance with the Securities and Exchange Act, all powers of Supervisors described in these Operational Procedures shall be exercised by the audit committee in accordance with law.

**7.0 Records**

- a) Shareholders' meeting minutes (retention period: permanently)
- b) Board meeting minutes (retention period: permanently)
- c) Internal request and approval documents (retention period: permanently)
- d) Case assessment reports for endorsements/guarantees (retention period: permanently)
- e) Seal request forms (retention period: as provided in the Rules Governing Official Documents and Files)
- f) Log book for endorsements/guarantees (retention period: permanently)

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- g) Reporting lists of public announcements and reporting over the Market Observation Post System (retention period: as provided in the Directions for the Handling of Public Announcements and Reporting over the Market Observation Post System)
- h) Audit reports (retention period: as provided in the Internal Audit Standards)

**8.0** Attachments

None